Verification of the Treasury Communications System Invoices Should Be Improved

April 2002

Reference Number: 2002-20-073

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

April 09, 2002

MEMORANDUM FOR DEPUTY COMMISSIONER FOR MODERNIZATION & CHIEF INFORMATION OFFICER

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Verification of the Treasury Communications System Invoices Should Be Improved (Audit # 200120036)

This report presents the results of our review of the management of the Treasury Communications System (TCS) costs. The overall objective of this review was to determine whether the Internal Revenue Service (IRS) is effectively managing the TCS circuits and equipment costs.

The TCS provides a centralized data communications network and management system to support the missions of the Department of the Treasury and its bureaus through a single contract vehicle. The TCS contractor provides a variety of services such as Internet access, network security, and network operations and maintenance. The TCS contractor also prepares the TCS invoices. Each Department of the Treasury bureau is responsible for reviewing and certifying its portion of the invoice. At the IRS, invoices are sent to TCS Coordinators located at various IRS offices for verification.

In summary, we found that the IRS reports billing inaccuracies to the contractor through the Billing Invoices Resolution reconciliation. However, invoice reviews should be improved. IRS controls were not adequate to ensure that TCS charges were appropriate and credits received. A review of invoices for 15 offices vacated from August 1998 through September 2000 and a review of 21 requests to remove telecommunications circuits that were completed between October 23, 2000, and July 24, 2001, identified overcharges totaling $66,375 because the IRS was charged for circuits and equipment after the items were removed from service. The IRS has not requested and received credit for these overcharges from the contractor.

Without proper controls to ensure that the TCS invoices are adequately reviewed and credits are received, the IRS has no assurance that all overcharges are identified or corrected. In Fiscal Year 2002, the IRS' TCS costs were $68.9 million.

In addition, the IRS did not perform an in-depth analysis of the TCS invoices to identify billings for circuits and equipment that no longer exist at IRS offices, as agreed to in our prior audit report, *Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract* (Reference Number 2000-10-028, dated February 2000). Management implemented an alternative action by performing an in-depth review of an equipment listing and changing the type of maintenance carried on circuits and equipment, resulting in $982,906 in savings over a 5-month period. While effective for reducing maintenance costs, this action was not effective in resolving TCS invoice discrepancies because it did not identify and report incorrect charges.

Management's Response: IRS management agreed with the recommendation presented in the report. Planned corrective actions to improve the TCS invoice verification process include creating a financial management unit that will be responsible for validating each invoice monthly, and centralizing resources responsible for the TCS ordering and invoice validation processes within a single business unit. IRS management will also work with the TCS contractor to ensure that the billing process aligns closely with IRS needs.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Scott E. Wilson, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

Table of Contents

Background

The Treasury Communications System (TCS) program was established to provide the Department of the Treasury and its bureaus with a centralized network and management system to support its customers' missions by providing a wide range of data communications services through a single contract vehicle. Data communications services provided through the TCS contractor include, among others, the following common services: Internet access, network security, and network operations and maintenance. The program also supports the bureau-specific requirements (for new services and equipment) with network engineering support, procurement of services and equipment, and installation services. In addition, the TCS contractor prepares the TCS invoices and each Department of the Treasury bureau is responsible for reviewing and certifying its portion of the invoice. The Internal Revenue Service's (IRS) Fiscal Year (FY) 2002 budget for TCS bureau-specific requirements is $68.9 million.

Telecommunication cost control issues were reported in a prior Treasury Inspector General for Tax Administration (TIGTA) report, *Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract* (Reference Number 2000-10-028, dated February 2000). The TIGTA reported that the IRS did not properly verify invoices for the TCS contract to ensure that costs were appropriate.

In response to the prior TIGTA report, the IRS stated it had implemented the following corrective actions for the invoice verification problems:

- In December 1999, an IRS analyst was co-located with the vendor to perform a detailed analysis of the monthly billing invoices of IRS circuits and equipment to validate the monthly charges.
- In October 1999, a monthly Billing Invoices Resolution (BIR) reconciliation with the TCS was also implemented to ensure that the IRS receives appropriate credits for erroneous charges.

Audit work was conducted in the: Information Technology Services National Headquarters; Detroit, Martinsburg, and

Tennessee Computing Centers; Atlanta and Memphis IRS Centers; and Midstates, Southeast, and Western Area Offices during July 2001 through January 2002. This audit was scheduled as part of the TIGTA FY 2001 Annual Audit Plan and was performed in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Controls Are Needed to Ensure That Incorrect Invoice Charges Are Identified and Corrected

Treasury Directive 40-04 and Office of Management and Budget (OMB) Circular A-123 provide guidance on the internal controls needed to reasonably ensure that programs and resources are protected from waste and mismanagement. An adequate system of internal control includes activities such as verification and reconciliation of transactions.

To improve controls, management implemented the monthly BIR reconciliation. The TCS contractor prepares and distributes the invoices to the TCS coordinators located at various IRS offices. The reconciliation involves verifying the invoice charges and documenting the discrepancies. The discrepancies are sent to the TCS Coordinator at the National Headquarters, who reviews and forwards them to the contractor for resolution. However, there were no policies and procedures to ensure that charges for all offices on the TCS invoice are consistently verified, reported, and reconciled or that the IRS received the credits agreed to by the contractor. As a result, the BIR reconciliation has several weaknesses, including:

- Inconsistent review of the invoices. Some coordinators perform a thorough review of the invoices while others do not review them at all.
- Inconsistent reporting of invoice discrepancies.
- No verification that the IRS receives the credits agreed to by the contractor.

A review of invoices for 15 offices vacated from August 1998 through September 2000 identified overcharges totaling $56,275 because the IRS was charged for circuits and equipment after the items were removed from service. Similarly, a review of 21 requests to remove telecommunications circuits that were completed between October 23, 2000, and July 24, 2001, identified $10,100 in overcharges because the IRS was charged for the circuits after they were removed from service. The IRS has not requested and received credit for these overcharges from the contractor. Because the risk of billing errors is high, controls should be used to ensure that errors, such as the $66,375 identified during our limited review, are identified and corrected.

Cost control weaknesses remain because Telecommunications Division management does not believe establishing controls to ensure the accuracy of invoices and the receipt of credits is their responsibility. They believe the Department of the Treasury's TCS Program Management Office is responsible for establishing the controls. Based on the Department of the Treasury and OMB guidance cited above, the TIGTA believes Telecommunications Division management is responsible for implementing controls to ensure programs and resources are protected from waste and mismanagement.

In addition, as agreed to in the prior audit report, the IRS did not perform an in-depth analysis of TCS invoices to identify billings for circuits and equipment that no longer exist at IRS offices. The analysts that were assigned to perform the analysis left the Telecommunications Division before initiating the analysis and management did not reassign this responsibility. Instead, management performed an in-depth review of an equipment listing and changed selected equipment maintenance contracts so that the IRS paid for maintenance or repairs only when service was provided instead of paying recurring monthly maintenance fees. This action resulted in total cost savings of $982,906 over a 5-month period. While effective in reducing maintenance costs, this action was not effective in resolving TCS invoice discrepancies because it did not identify and report incorrect charges.

Without proper controls to ensure that the TCS invoices are adequately reviewed and credits are received, the IRS has no assurance that all overcharges are identified and corrected. In FY 2002, IRS' TCS costs were $68.9 million.

Recommendation

1. The Deputy Commissioner for Modernization & Chief Information Officer should ensure that incorrect charges on the TCS invoices are identified, reported, and resolved on a monthly basis, including follow-ups to ensure the IRS receives the appropriate credits from the contractor.

Management's Response: IRS management agreed with the recommendation presented in the report. Planned corrective actions to improve the TCS invoice verification process include creating a financial management unit that will be responsible for validating each invoice monthly, and centralizing resources responsible for the TCS ordering and invoice validation processes within a single business unit. IRS management will also work with the TCS contractor to ensure that the billing process aligns closely with IRS needs.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the Internal Revenue Service (IRS) is effectively managing the Treasury Communications System (TCS) circuits and equipment costs. To accomplish this objective, we:

I. Evaluated the process for verifying TCS invoices to ensure that costs are appropriate and credits are received.

A. Determined whether management implemented an effective process to verify the invoices and follow up on Billing Invoices Resolution (BIR) reconciliation issues to ensure that appropriate credits are received.

1. Interviewed representatives at the National Headquarters to determine if a billing resolution process was implemented and documented.

2. Obtained a copy of the procedures that were developed and issued to the IRS offices for reconciling invoices or documented the process if a copy of the procedures was not available.

3. Determined who was responsible for confirming whether the IRS had received appropriate credits and evaluated the confirmation process by:

a. Performing a walk-through of the confirmation process.

b. Obtaining examples of documentation confirming that appropriate credits were received.

4. Selected a judgmental sample of IRS representatives who were primarily responsible for reconciling the invoices to determine if they understood and followed the reconciliation procedures issued by the National Headquarters. If the procedures were not understood or followed, we determined the office's process for reconciling the invoice, reporting billing discrepancies, and following up to ensure the IRS received the appropriate credits. The IRS representatives were selected based on proximity to Memphis, Tennessee, and the National Headquarters, and office type, i.e., area offices, computing centers, and service centers. Thus, the representatives interviewed were from the Information Technology Services National Headquarters; Midstates and Southeast Area Offices; Detroit, Martinsburg, and Tennessee Computing Centers; and Atlanta and Memphis IRS Centers.

B. Determined if the TCS invoices included charges for offices that had been vacated by the IRS.

1. Used a listing of real estate space that the Agency-Wide Shared Services Office reported would be vacated in Fiscal Year 2000. Two offices vacated prior to 2000, identified while completing test I.A.4, were also included in this test. The TCS coordinators were asked to confirm that the 15 offices (situated in locations listed in test I.A.4 and the Western Area Office) were vacated and should not incur any telecommunications charges. The 15 offices were vacated by the IRS from August 1998 through September 2000.

2. Reviewed invoices from October 1999 (Invoice 38) through November 2001 (Invoice 63) to determine if any charges were billed to these offices after they were vacated.

3. Determined if the erroneous charges identified in test I.B.2 were reported through the BIR reconciliation and whether the IRS followed up and received appropriate credits for the erroneous charges.

C. To determine if the TCS invoice included charges for disconnected circuits, we:

1. Used the spreadsheet entitled IRS "Communications Utility Program Installs SR/SO Status"[1] FY 2001, dated August 29, 2001, to identify requests to remove telecommunications circuits that were completed (excluding requests for the removal of the X.25 network). Sixty-one completed requests were identified.

2. Sorted the 61 requests by geographic category (14). The results were not going to be projected over all the service requests; therefore, we judgmentally selected the Area Office [Midstates Area Office (MAO) with 17 requests] and Computing Center [Martinsburg Computing Center (MCC) with 4 requests] locations with the highest number of requests to remove telecommunications circuits for review.

3. Obtained and reviewed the 21 MAO and MCC requests and related service orders that were completed between October 23, 2000, and July 24, 2001.

4. Obtained and reviewed the TCS invoices to determine whether the charges for the circuits were removed from the invoices.

5. Determined if the erroneous charges identified in test I.C.4 were reported through the BIR reconciliation and whether the IRS followed up and received appropriate credits.

II. Determined the status of corrective actions reported in the prior audit, *Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract* (Reference Number 2000-10-028, dated February 2000) and their effectiveness.

[1] This report includes Service Requests/Service Orders for the installation and deinstallation of service.

A. The prior report recommended an in-depth analysis of IRS TCS invoices to identify billings for circuits and equipment that no longer exist at the IRS (Recommendation 1). IRS management responded that by December 7, 1999, an analyst was assigned to perform a detailed analysis of the monthly billing invoices of IRS circuits and equipment. To determine if the analysis was completed, we:

1. Interviewed the persons responsible for completing the analysis and identified the process that was used to find erroneous charges.
2. Obtained a copy of the report containing the results of the analysis and determined whether the IRS was compensated for erroneous charges.

B. The prior report also recommended the implementation of a process to follow up on billing resolution issues to ensure that the IRS is receiving the appropriate credits. IRS management responded that the BIR reconciliation was implemented on October 1, 1999, and it would compare the contractor's database of IRS circuits and supported offices to the IRS' Network Management Center information for additions and deletions of circuits and equipment. We address the first part of the corrective action in Objective I.A. To determine whether the second part of the corrective action was completed, we:

1. Interviewed the persons responsible for completing the analysis.
2. Determined if the analysis results were used to establish the IRS' baseline of TCS circuits and equipment and whether this information was used to assist in verifying the charges on the TCS invoice.

Appendix II

Major Contributors to This Report

Scott E. Wilson, Assistant Inspector General for Audit (Information Systems Programs)
Gary Hinkle, Director
Danny Verneuille, Audit Manager
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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner N:DC
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Director, Enterprise Operations M:I:E
Director, End User Equipment and Services M:I:F
Director, Enterprise Networks M:I:T
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Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Cost Savings, Questioned Costs – Actual; $66,375 in circuit and equipment overcharges (see page 2).

Methodology Used to Measure the Reported Benefit:

We performed two tests to identify circuit and equipment overcharges. One test focused on offices vacated by the Internal Revenue Service (IRS) from August 1998 through September 2000 and the second test focused on requests to remove telecommunications circuits completed between October 23, 2000, and July 24, 2001. For both tests, overcharges were calculated approximately 2 months after the cutover date[1] until November 2001. The cutover date for each vacated office or request determined which invoices were reviewed. As a result, we reviewed invoice numbers 38 through 63 (October 1999 – November 2001) for the related items. The outcome measures include only overcharges that had not been identified or reported by the IRS and had not been offset by any identifiable related credits as of November 2001.

For the test of the vacated offices, the Agency-Wide Shared Services Office provided a list showing 28 properties that the IRS planned to vacate during Fiscal Year 2000. For each office, we asked the Treasury Communications System (TCS) coordinators to provide information such as the date the office was vacated and the information needed to determine the cutover date. We received confirmation that 13 of the 28 offices had been vacated. In addition to the 13, we also reviewed 2 offices vacated prior to 2000 that were discussed during an interview with a TCS Coordinator. Our review of the invoices for the 15 vacated offices identified $56,275 in overcharges at 13 offices (see Table 1).

[1] A cutover date is the date that the vendor has completed all the services listed in a service request, including the deinstallation of circuits and equipment, if applicable.

Table 1: Overcharges Identified in Test 1

City and State of Vacated Office	Overcharges
Rice Lake, WI	$5,251.95
Atlanta, GA (Office 1)	$1,773.83
Atlanta, GA (Office 2)	$400.82
Paintsville, KY	$7,103.26
Huntington, WV	$283.07
Soldotna, AK	$6,602.75
Lake Havasu, AZ	$4,585.16
Oxnard, CA	$6,807.71
San Diego, CA	$10,844.16
Eugene, OR	$2,986.21
Pendleton, OR	$5,857.32
St. George, UT	$2,345.49
Olympia, WA	$1,433.22
Total Overcharges	$56,274.95

For the second test, we used a spreadsheet entitled IRS "Communications Utility Program Installs SR/SO Status"[2] Fiscal Year 2001 for the period ending August 29, 2001, to identify requests to remove telecommunications circuits that were completed. Since the IRS planned to review the TCS invoice to ensure that charges for a certain telecommunications network (i.e., the X.25 telecommunications network) are removed, we excluded the requests related to that network from this test. Sixty-one completed requests were identified and sorted by geographic category and number of requests. The Midstates Area Office (17 requests) and the Martinsburg Computing Center (4 requests) were selected for review because they had the highest number of requests for the Area Offices and Computing Centers.

The 21 requests were completed between October 23, 2000, and July 24, 2001. We reviewed the requests and invoices to determine if the IRS was charged for circuits after they had been removed from service. In this test, we identified overcharges of $10,100 related to 3 completed requests (see Table 2).

Table 2: Overcharges Identified in Test 2

TCS Service Request Number	Inappropriate Charges
TIRS-02714	$6,124.87
TIRS-02723	$1,934.71
TIRS-02786	$2,039.94
Total Overcharges	$10,099.52

The overcharges identified from both tests totaled $66,375.

[2] This report includes Service Requests/Service Orders for the installation and deinstallation of service.

Type and Value of Outcome Measure:

- Cost Savings, Recommendation That Funds Be Put to Better Use – Actual; $982,906 in reduced maintenance costs (see page 2).

Methodology Used to Measure the Reported Benefit:

As a result of a prior report,[3] the IRS agreed to perform an in-depth analysis of the TCS invoices to identify billings for circuits and equipment that no longer exist at IRS offices. However, this was never completed. As an alternative action, IRS management performed an in-depth review of an equipment listing to identify and change the maintenance contracts for selected equipment so that the IRS paid for maintenance or repairs only when service was provided instead of paying recurring monthly maintenance fees. Removal of the monthly maintenance charges for the selected items resulted in a monthly cost savings of $196,581.17 beginning in May 2000. The IRS projected savings over a 5-month period[4] totaling approximately $982,906.

[3] *Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract* (Reference Number 2000-10-028, dated February 2000).
[4] May through September 2000 (which is the end of Fiscal Year 2000).

Appendix V

Management's Response to the Draft Report

DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED
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April 1, 2002

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: John C. Reece
Deputy Commissioner for Modernization and
Chief Information Officer

SUBJECT: Management Response to Draft Audit Report – "Verification of the Treasury Communications System Invoices Should Be Improved" (#200120036)

The Modernization, Information Technology and Security Services (MITS) organization uses the Treasury Communications System (TCS) contract to supply all aspects of our data communications network.

We have taken several steps to improve verification of TCS invoices including:

- Centralizing resources within Enterprise Networks Division to manage the invoice process in a single organization
- Conducting periodic end-to-end reviews of projects to ensure invoice accuracy
- Partnering with TRW, the TCS contractor, to ensure we receive invoices timely and TRW internal processes align closely with IRS' needs

By implementing your recommendation, we will ensure that the IRS is not charged for services we no longer use. In fact, our on-going verification of invoices associated with the removal of X.25 circuits and equipment has already resulted in identification of $430,000 in potential overcharges and it is only 40% complete.

We have included additional details on these actions in our attached management response. We agree with your identification of overcharges on the TCS contract, and are tracking the actual benefits achieved from our review. If you have any questions, please call me at (202) 622-6800. Members of your staff can call Thomas Mulcahy, Manager, Program Oversight and Coordination Office, at (202) 283-6063.

Attachment

Attachment

Management Response to Draft Audit Report "Verification of the Treasury Communications System Invoices Should be Improved" (#200120036)

Recommendation

The Deputy Commissioner for Modernization and Chief Information Officer should ensure that incorrect charges on the TCS invoices are identified, reported, and resolved on a monthly basis, including follow-ups to ensure the IRS receives the appropriate credits from the contractor.

Assessment of Cause

The Enterprise Networks Division within Information Technology Services has two separate organizations responsible for portions of the Treasury Communications System (TCS) billing process and also relies on field personnel in the End User Equipment and Services organization to identify and process circuitry changes and to verify bills. No single organization has responsibility for the entire process. Follow-up from the order point to the budget function does not always occur because the contractor billing process often takes months to reach the IRS.

Corrective Actions

1. The Enterprise Networks Division is creating a financial management function within its Wide Area Network (WAN) Support Branch. The WAN Branch manages the TCS contract. The financial management unit will be responsible for validating each invoice monthly.

2. The Enterprise Networks Division proposed that the field personnel involved in ordering TCS services and equipment be part of the Division. Those actually placing the orders will be in the Wide Area Network Support Branch placing beginning to end responsibility within a single business unit.

3. The Wide Area Network (WAN) Support Branch has undertaken a complete review of billing on single large disconnect process (X.25 Removal) and will follow-up with others to identify any additional cost savings.

4. TRW, the TCS contractor, began actions to speed up its billing processes to ensure timely billing. The WAN Support Branch is providing input to ensure the process aligns closely with IRS needs. This will reduce the likelihood of future invoice disconnects.

Attachment

Management Response to Draft Audit Report "Verification of the Treasury Communications System Invoices Should be Improved" (#200120036)

Implementation Dates of Corrective Actions

1. Proposed: July 1, 2002
   Implement financial management organization in WAN Support

2. Proposed: October 1, 2002
   Stand up WAN Support Branch with field personnel

3. Proposed: June 1, 2002
   Verify X.25 Removal Costs

4. Proposed: July 1, 2002
   Refine TRW billing process

Responsible Official for Corrective Actions 1 to 4

Deputy Commissioner for Modernization/Chief Information Officer M
Chief Information Technology Services M:I
Director, Enterprise Operations M:I:E
Director, Enterprise Networks M:I:T

Monitoring Plan for Corrective Action

The Director, Enterprise Networks will provide oversight for execution of the action plan. This will include conducting periodic audits of TCS billing as well as management of the transition to the new organizational alignment.